

## LEBANON THIS WEEK

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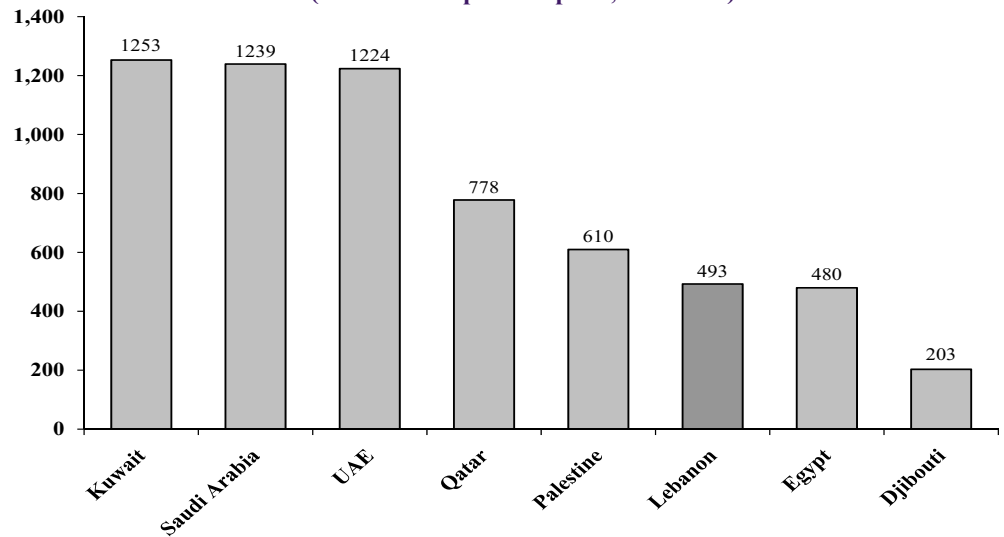
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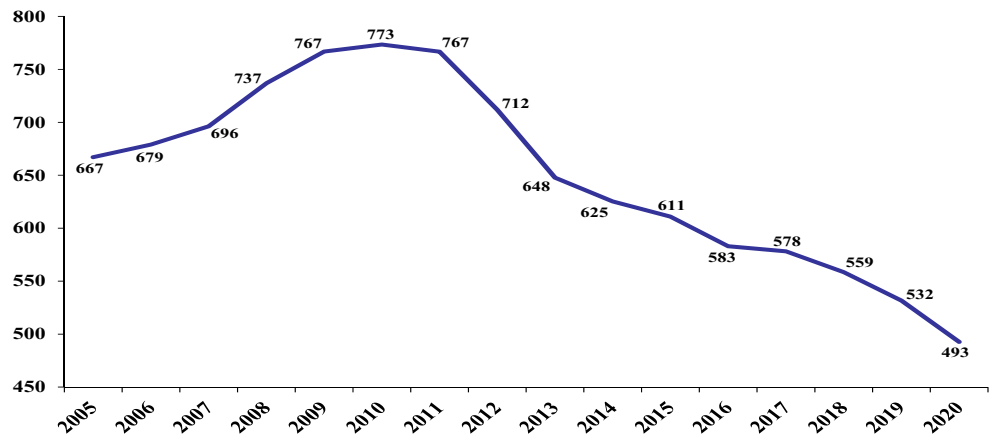
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### Charts of the Week

**Penetration rate of Depositors at Commercial Banks in Arab Countries at end-2020**  
(number of depositors per 1,000 adults)



**Penetration rate of Depositors at Commercial Banks in Lebanon**  
(number of depositors per 1,000 adults)



Source: International Monetary Fund, Byblos Bank

### Quote to Note

"We urge the Government of Lebanon and other decision-making bodies to conclude without further delays, in line with their repeated and consistent announcements and commitments, an agreement with the International Monetary Fund, and to take all the decisions and measures that need to be taken prior to such an agreement immediately."

*The Member States of the European Union and the EU Delegation in Lebanon, on what Lebanon needs to do to recover from its macroeconomic and fiscal crisis*

### Number of the Week

**0.2%:** The average interest rate on US dollar deposits at commercial banks in Lebanon as at November 2021, according to Banque du Liban

## Lebanon in the News

\$m (unless otherwise mentioned)	2020	Jan-Nov 2020	Jan-Nov 2021	% Change*	Nov-20	Oct-21	Nov-21
Exports**	3,544	914	699	-23.5%	251	-	-
Imports**	11,310	2,931	3,329	13.6%	674	-	-
Trade Balance**	(7,766)	(2,017)	(2,630)	30.4%	(423)	-	-
Balance of Payments	(10,551)	(10,203)	(1,576)	-84.6%	(214)	(154)	160
Checks Cleared in LBP	19,937	17,995	16,901	-6.1%	1,683	1,298	1,825
Checks Cleared in FC	33,881	31,079	16,700	-46.3%	2,242	891	949
Total Checks Cleared	53,828	53,828	33,607	-37.6%	3,926	2,189	2,773
Fiscal Deficit/Surplus***	(2,535)	(2,223)	187	-	514	-	-
Primary Balance***	(1,136)	(876)	1,152	-	666	-	-
Airport Passengers	2,501,975	2,219,814	3,879,144	74.8%	220,333	415,231	344,737
Consumer Price Index	84.9	79.0	145.6	6660	133.5	173.6	201.1

\$bn (unless otherwise mentioned)	Dec-20	Nov-20	Aug-21	Sep-21	Oct-21	Nov-21	% Change*
BdL FX Reserves	18.60	19.03	14.20	14.62	14.49	14.05	(26.2)
In months of Imports	15.10	-	-	-	-	-	-
Public Debt	95.59	95.51	98.73	-	-	-	-
Bank Assets	188.04	190.31	180.28	179.68	178.90	175.60	(7.7)
Bank Deposits (Private Sector)	139.14	139.91	133.04	132.49	131.65	129.53	(7.4)
Bank Loans to Private Sector	36.17	37.11	30.86	30.00	29.18	28.04	(24.4)
Money Supply M2	44.78	43.32	49.85	49.95	50.03	50.10	15.6
Money Supply M3	132.70	131.92	133.21	132.90	132.42	131.62	(0.2)
LBP Lending Rate (%)	7.77	7.92	7.52	7.65	7.46	7.20	(72)
LBP Deposit Rate (%)	2.64	2.91	1.62	1.53	1.34	1.23	(168)
USD Lending Rate (%)	6.73	6.63	5.87	6.34	6.86	6.75	12
USD Deposit Rate (%)	0.94	0.97	0.30	0.26	0.23	0.20	(77)

\*year-on-year; \*\*figures for the period reflect the first quarter of each year; \*\*\*figures for the period reflect the first half of each year  
Source: Association of Banks in Lebanon, Banque du Liban, Ministry of Finance, Central Administration of Statistics, Byblos Research

## Capital Markets

Most Traded Stocks on BSE*	Last Price (\$)	% Change*	Total Volume	Weight in Market Capitalization	Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Solidere "A"	30.40	(0.6)	114,069	30.4%	Oct 2022	6.10	9.25	917.89
Solidere "B"	29.83	(2.8)	36,126	19.4%	Jan 2023	6.00	9.25	453.29
Byblos Pref. 08	34.99	0.0	4,200	0.7%	Apr 2024	6.65	9.25	140.12
Byblos Common	0.82	0.0	4,000	4.6%	Jun 2025	6.25	9.25	84.41
BLOM GDR	3.27	(1.2)	1,060	2.4%	Nov 2026	6.60	9.25	55.77
Byblos Pref. 09	37.99	0.0	800	0.8%	Feb 2030	6.65	9.25	31.72
BLOM Listed	3.59	(4.3)	530	7.7%	Apr 2031	7.00	9.25	27.49
HOLCIM	19.00	0.0	427	3.7%	May 2033	8.20	9.25	22.19
Audi Listed	2.08	0.0	210	12.3%	Nov 2035	7.05	9.25	18.06
Audi GDR	1.90	0.0	-	2.3%	Mar 2037	7.25	9.25	16.33

Source: Beirut Stock Exchange (BSE); \*week-on-week

Source: Refinitiv

	Jan 17-21	Jan 10-14	% Change	December 2021	December 2020	% Change
Total shares traded	211,722	94,036	125.1	1,283,538	3,480,130	(63.1)
Total value traded	\$4,788,008	\$2,357,606	103.1	\$22,004,921	\$29,046,630	(24.2)
Market capitalization	\$9.99bn	\$10.09bn	(1.05)	\$10.61bn	\$6.72bn	57.8

Source: Beirut Stock Exchange (BSE)



### Draft budget forecasts deficit equivalent to 21% of expenditures for 2022

The draft budget for 2022 that the Ministry of Finance submitted to the Council of Ministers shows budget expenditures at LBP49,416bn and revenues at LBP39,164bn, leading to a budget deficit of LBP10,252bn, which would be equivalent to 20.8% of expenditures.

The ministry did not provide the macroeconomic indicators and assumptions that it used in the draft budget, such as real GDP growth, the inflation rate, and nominal GDP. Also, budget expenditures totaled LBP18,777bn and revenues amounted to LBP13,425bn in the 2021 budget law, resulting in a target deficit of LBP5,352bn that is equivalent to 28.5% of spending. But the figures for 2022 are not comparable to the 2021 draft budget as the assumptions for the 2021 budget are based on the official exchange rate of LBP 1507.5 to the US dollar.

The budget forecasts current expenditures at LBP 47,203bn and capital spending at LBP 2,212bn, which account for 95.5% and 4.5%, respectively, of budgetary spending. The distribution of the main expenditures items shows that the compensation of public-sector personnel, which includes salaries, wages and related benefits, as well as retirement, end-of-service indemnities, and transfers to public institutions to cover salaries, amounts to LBP11,238bn and represents 22.7% of aggregate budget spending in 2022. Also, social assistance, mostly to public sector workers, totals LBP 14,421bn (29.2%); followed by interest payments on debt denominated in Lebanese pounds and on multilateral and bilateral debt at LBP 7,667bn (14%); Treasury transfers to *Électricité du Liban* (EdL) at LBP 5.250bn (10.6%); exceptional & urgent spending excluding transfers to EdL at LBP3,962bn (8%); and capital spending, mostly maintenance and the purchase of equipment, at LBP2,212bn (4.5%).

On the revenues side, the draft budget projects tax revenues at LBP 33,598bn and non-tax receipts at LBP 5,555bn, or 85.8% and 14.2%, respectively of total revenues. In comparison, realized tax and non-tax revenues reached LBP6,938bn and LBP 1,468bn, respectively, in the first half of 2021. The ministry estimates that revenues from the value-added tax (VAT) and the excise tax on goods & services would generate 58.8% of total tax receipts based largely on inflationary effects; followed by the tax on income, profits & capital gains (17.6%); receipts from custom duties (10%); and income from property taxes (8.7%); while other taxes would generate the remaining 5% of total tax receipts.

The 2022 draft budget includes a series of tax incentives to the private sector. It allows taxpayers to pay their taxes due for 2020 and for previous years in installments of up to three years. It also allows taxpayers who are challenging their taxes in front of the relevant committees to reach a settlement by paying 50% of the dues without incurring any penalty. Further, it exempts firms that ceased their operations as a result of the Beirut Port explosion and resumed their work afterwards from the income tax for the 2021-23 period. Also, it provides new industrial and commercial companies with a seven-year exemption on paying income tax, provided that they are established in regions that the government intends to develop, that their capital is \$3m or more, and that 65% of their workforce consists of Lebanese citizens. Further, it provides companies that merge with a 50% exemption on the income of the new entity for three years following the merger, based on certain conditions. Banks and financial institutions do not qualify for this tax break. The budget exempts technology startups that get established within five years after the ratification date of the budget from the income tax for five years, as long as at least 80% of the staff of the startup consists of Lebanese nationals. Moreover, it exempts the remuneration that employees receive from layoffs or resignations from the tax on wages, and salaries and allows companies to consider these remunerations as deductibles from the company's revenues.

Further, the budget imposes a customs duty of 3% for 10 years on imports that are subject to the VAT, except for gasoline, industrial equipment, and raw materials for agriculture and industry. Also, it imposes a 10% customs duty for seven years on imported products, in case local industry produces similar products in commercial quantities. In addition, the budget provides a tax exemption of 75% for five years on income from industrial exports, on the condition that this income is repatriated to local banks or in case it finances domestic industrial activity. It also exempts from the VAT and customs duties all imported equipment used to generate electricity from solar energy until the end of 2024. It also exempts imported new or used electric, hybrid and plug-in vehicles from 80% of customs duties, registration and road fees for three years.

In parallel, the budget exempts interest rates on foreign currency deposits that originate from foreign sources, and on fresh money deposited at local banks, from any taxes for five years. In addition, it plans to increase the limit on the deposit guarantees from LBP75m currently to LBP600m on existing deposits in all currencies, and sets at \$50,000 the deposit guarantee on "fresh deposits accounts" in US dollars or in any other foreign currency. Also, it imposed new fees or raised existing ones on a number of formalities with various public sector agencies and departments, and stipulated that the government or the Ministry of Finance can set fees based on a specified exchange rate of the Lebanese pound to the US dollar.

### Consumer Price Index up 155% in 2021

The Central Administration of Statistics' Consumer Price Index increased by 154.8% in 2021. In comparison, it grew by 4.5% in 2017, by 6.1% in 2018, by 3% in 2019, and by 85% in 2020.

The CPI rose by 224.4% in December 2021 from the same month of 2020, while it registered its 18th consecutive triple-digit increase since July 2020. The cumulative surge in inflation is due in part to the inability of authorities to monitor and contain retail prices, as well as to the deterioration of the Lebanese pound's exchange rate on the parallel market and the gradual lifting of subsidies on hydrocarbons, which have encouraged opportunistic wholesalers and retailers to raise the prices of consumer goods disproportionately. In addition, the smuggling of subsidized imported goods has resulted in shortages of these products locally, which contributed to the rise in prices. Further, the emergence of an active black market for gasoline during the summer has put upward pressure on prices and on inflation.

Transportation costs surged by 6.2 times in December 2021 from the same month last year, followed by the prices of food & non-alcoholic beverages (+5.4 times), the prices of water, electricity, gas & other fuels (+5.3 times), the rates at restaurants & hotels (+5.1 times), healthcare costs (5 times), the cost of alcoholic beverages & tobacco (+4 times), prices of furnishings & household equipment (+3.4 times), and the prices of clothing & footwear (+3.3 times). In addition, the prices of miscellaneous goods & services jumped by 183% year-on-year in December 2021, followed by the cost of recreation & entertainment (+152.2%), communication costs (+36.2%), the cost of education (+35%), imputed rent (+2.8%), and actual rent (+2.5%). Also, the distribution of actual rent shows that new rent grew by 3.2% and old rent increased by 1.5% in December 2021 from the same month last year.

In parallel, the CPI increased by 16.5% in December 2021 from the previous month, compared to a month-on-month rise of 10.6% in November 2021 and of 16.4% in October 2021. Water, electricity, gas and other fuels surged by 44.8% month-on-month in December 2021, followed by transportation costs (+31.8%), rates at restaurants and hotels (+20.7%), the prices of food and non-alcoholic beverages (+20%), prices of alcoholic beverages & tobacco (+19.4%), the cost of miscellaneous goods & services (+15.7%), clothing & footwear prices (+15%), furnishings & household equipment (+12.3%), the cost of recreation & entertainment (+12%), healthcare cost (+6.5%), imputed rent (+1.7%), communication cost (+0.9%), and actual rent (+0.8%). Also, the cost of education was unchanged in December 2021 from the preceding month.

Further, the CPI increased by 21.3% in the South, by 18.6% in the Bekaa, by 17.7% in the North, by 16.5% in Mount Lebanon, by 15% in Nabatieh, and by 10.1% in Beirut in December 2021 from the previous month. In parallel, the Education Price Index was unchanged, while the Fuel Price Index increased by 5.2% month-on-month in December 2021.

### Banque du Liban reaffirms sales of dollar banknotes to banks

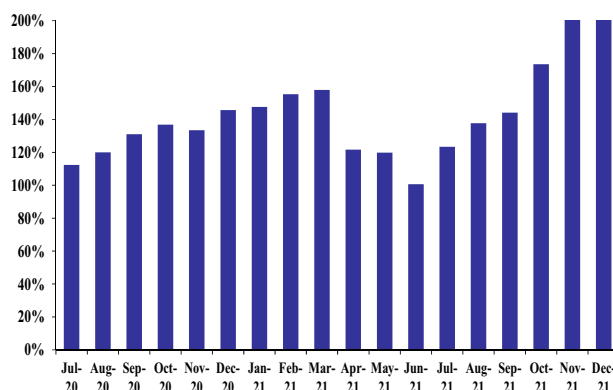
Banque du Liban (BdL) Governor Riad Salamé reaffirmed that the implementation of Circular 161, along with the follow up decision to sell banks US dollar banknotes for Lebanese pound banknotes at the exchange rate of the electronic Sayrafa platform, will continue to take place. He added that the daily volume of transactions on the Sayrafa platform does not constitute BdL interventions in the market, and that the daily transactions on the platform are not limited to BdL's transactions with banks, but also include all buying or selling transactions of US dollars among entities that are registered on the platform through banks and money exchange dealers.

BdL issued on January 11, 2022 a statement related to Basic Circular 161 dated December 16, 2021 addressed to banks about exceptional measures related to cash withdrawals from accounts at banks in Lebanon. The follow up statement stipulates that BdL authorize banks to purchase US dollar banknotes from the latter with the Lebanese pounds that they hold, or from their clients' holdings of Lebanese pounds banknotes, at the exchange rate of the dollar on BdL's Sayrafa electronic exchange platform.

Circular 161 indicated that BdL will provide commercial banks cash US dollar banknotes instead of the supply of Lebanese pound banknotes, at the daily exchange rate of the Lebanese pound to the dollar, based on the operations conducted on BdL's Sayrafa electronic exchange platform on the previous day. It added that the supply of the dollar banknotes will consist of the preset monthly ceiling for each bank.

Also, BdL asked all banks to disburse the dollar banknotes in full to their clients at the Sayrafa exchange rate as specified, instead of settling the depositors' withdrawal amounts or cash operations at counters in Lebanese pounds, based on the authorized ceiling of each client. Further, it noted that clients can submit a written request in case they do not want to withdraw their monthly ceiling in US dollars. The clauses of the circular expire at the end of January 2022. But the banks' quotas have been insufficient to meet the dollar amounts for the withdrawals of depositors, which prompted BdL to issue its follow up decision.

Annual Change in CPI (%)



Source: Central Administration of Statistics, Byblos Research

### Potential deal with IMF to open door to multiple sources of foreign financing

Emirates NBD Bank expected Lebanon's economy to return to growth in 2022, but it attributed it in large part to base effects following four consecutive years of contraction, rather than due to a marked improvement in growth prospects. It indicated that there are substantial upside and downside risks to the outlook, as an uncertain political outlook continues to weigh on the recovery. It considered that the crisis is not showing signs of abating at the start of 2022, and that the pressures on households and businesses continue to be significant. It noted that the government's removal of subsidies towards the end of 2021 has exacerbated the inflationary effects of the currency depreciation. It said that Lebanese exports, which have become an increasingly important source of foreign currency for the country given that portfolio inflows have dried up and tourism remains constrained, have been impacted by a ban on Lebanese products by Saudi Arabia and other Gulf states.

In parallel, it noted that the government's default on its foreign debt in March 2020 triggered a financial crisis that amplified the existing challenges. However, it noted that there are still open avenues to Lebanon to secure foreign funding, which have remained off the table up until now. It indicated that the European Union and the International Monetary Fund (IMF) have repeatedly stressed their desire to provide support, but added that this help remains incumbent on Lebanese policymakers taking credible reforms measures.

It said that the IMF will likely want to see more concrete steps forward by the government before entering into a funding program with Lebanon. But it noted that, once this the sides reach an agreement, the IMF support and policy anchor would encourage greater support from other sources as well, and potentially see the release of the funds pledged at the CEDRE conference in 2018. It added that this, in turn, could encourage foreign private investment flows.

### Construction activity slightly deteriorates in second quarter of 2021

Banque du Liban's quarterly business survey about the opinions of business managers shows that the balance of opinions for general construction activity reached -67 in the second quarter of 2021, relative to -65 in the first quarter of 2021 and to -81 in the second quarter of 2020. The balance of opinions for general construction activity in the second quarter of 2021 constituted the fourth lowest quarterly level since the first quarter of 2004, after reaching -81 in the second quarter of 2020, -75 in the first and third quarters of 2020, and -69 in the fourth quarter of 2020. The results are attributed to the economic crisis, as well to disruptions to economic activity as a result of the lockdown measures that the government imposed since March 2020 to contain the outbreak of the COVID-19 pandemic, and to the impact of the explosion at the Port of Beirut on August 4, 2020.

The business survey reflects the opinions of enterprise managers about the evolution of their businesses, in order to depict the trend of a number of key economic variables. The balance of opinions is the difference between the proportion of surveyed managers who consider that there was an increase and the proportion of those who reported a decline in a particular indicator. The balance of opinions for construction activity was -65 in the second quarter of 2021 compared to -66 in the preceding quarter and to -78 in the second quarter of 2020. It reached its sixth lowest quarterly level since the first quarter of 2004. The balance of opinions about construction activity was the lowest in the Bekaa at -100, Beirut & Mount Lebanon (-94), followed by the South (-53), and the North (-12). Also, the balance of opinions about public works stood at -68 in the second quarter of 2021 compared to -60 in the first quarter of 2021 and to -76 in the second quarter of 2020. Opinions about the level of public works were the lowest in the Bekaa at -100, Beirut & Mount Lebanon area (-92), followed by the South (-80), and the North (-13).

In addition, the balance of opinions about the portfolio of projects was -87 in the second quarter of 2021 relative to -93 in the preceding quarter and to -96 in the second quarter of 2020, and reached its fifth lowest quarterly level since the first quarter of 2004. The balance of opinions about the portfolio of projects was the lowest in the South at -100, followed by the Bekaa (-98), Beirut & Mount Lebanon (-97) and the North (-63). Further, the balance of opinions about construction costs reached +57 in the second quarter of 2021, compared to +49 in the preceding quarter and +56 in the second quarter of 2020.

In parallel, the balance of opinions about investments in the sector was 17% in the second quarter of 2021, unchanged from the preceding quarter, and relative to 4% in the second quarter of 2020. The balance of opinions about investments was 68% in the North, followed by Beirut & Mount Lebanon (5%), while there were no new investments in the Bekaa and the South. Also, the balance of opinions about the number of employees in the sector was -79 in the second quarter of 2021 compared to -88 in the preceding quarter and to -86 in the second quarter of 2021, and reached its fifth lowest quarterly level since the first quarter of 2004. The balance of opinions about the number of employees was the lowest in the South at -100, followed by the Bekaa (-94), Beirut & Mount Lebanon (-73) and the North (-63).

Construction and Public Work Activity: Evolution of Opinions				
Aggregate results	Q2-18	Q2-19	Q2-20	Q2-21
General activity	-48	-48	-81	-67
Construction	-53	-50	-78	-65
Public works	-41	-36	-76	-68
Portfolio of projects	-55	-49	-96	-87
Construction costs	16	-5	56	57
Investments (% of yes)	25%	19%	4%	17%

Source: Banque du Liban Business Survey for Second Quarter of 2021



### Cost of living in Lebanon is 28<sup>th</sup> highest in the world, highest among Arab countries

The 2022 Cost of Living Index, produced by crowd-sourced global database Numbeo, ranked the cost of living in Lebanon as the 28<sup>th</sup> highest among 139 countries around the world and the highest among 17 Arab states. In comparison, Lebanon came in 23<sup>rd</sup> place in the 2021 survey among 138 countries worldwide. Lebanon ranked in the 80<sup>th</sup> percentile worldwide in the 2022 Index, which means that the cost of living in the country was higher than in 80% of the countries covered by the survey, while the cost of living in Lebanon was higher than about 83% of countries worldwide in the 2021 survey. The index covers the prices of consumer goods, such as groceries, meals and drinks at restaurants, transportation, and utilities. Numbeo benchmarks the Index against New York City. It also issues a Rent Index, which is an estimation of apartment rents in a country compared to New York City rents.

According to the Cost of Living Index, consumer goods in Lebanon are more expensive than in Malta, Macao and Puerto Rico; while they are less costly than in Canada, the U.S. and the U.K. Lebanon received a score of 69.62 points in the 2022 survey, which means that prices in Lebanon are 30.38% lower than those in New York City.

In parallel, the Rent Index ranked Lebanon in 36<sup>th</sup> place globally and in fifth place among Arab countries. Lebanon received a score of 24.81 points on the index, which means that rent in Lebanon is 75.2% less expensive than in New York City. Globally, renting an apartment in Lebanon is more expensive than in Senegal, Cyprus and Barbados; while it is less expensive than in Sweden, Belgium and France. Further, Qatar, the UAE, Kuwait and Bahrain are the only Arab countries that have more expensive rents than Lebanon.

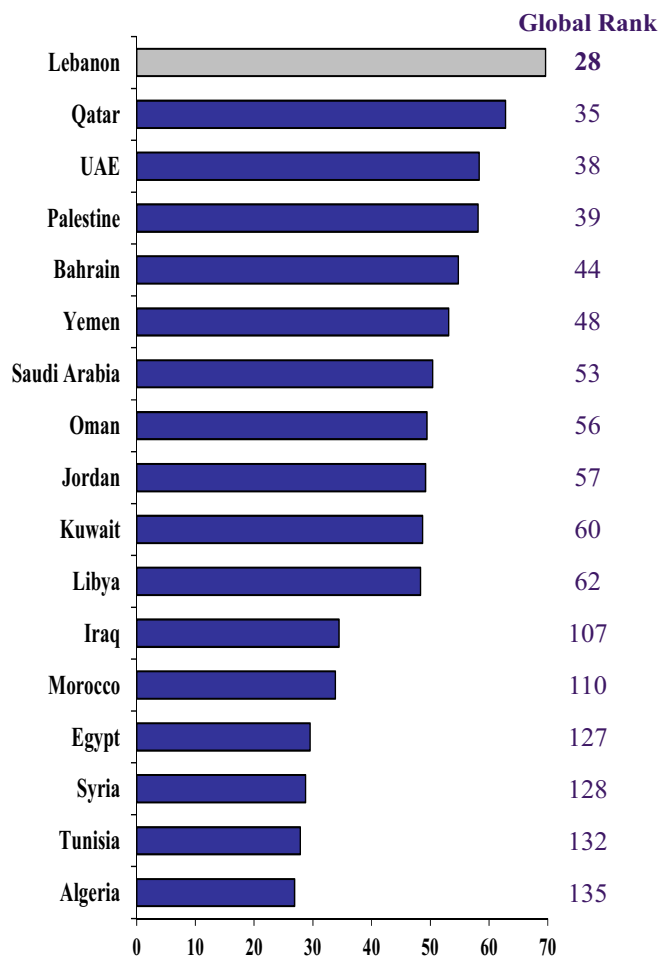
Also, the Groceries Index, which is an estimate of grocery prices in a country compared to New York City, ranked Lebanon in 25<sup>th</sup> place globally and in second place among Arab countries. Lebanon received a score of 66.83 points, which means that groceries in Lebanon are 33.2% less expensive than they are in New York City. Globally, groceries in Lebanon are more expensive than in Austria, Sweden and the Netherlands; while they are cheaper than in Denmark, Macao and Yemen. Also, groceries in Lebanon were cheaper than only in Yemen regionally.

Finally, the Restaurant Index, which compares the prices of meals and drinks at restaurants and pubs relative to New York City, ranked Lebanon in 36<sup>th</sup> place globally and in third place among Arab countries. Lebanon received a score of 54.25 points on the index, which means that prices at restaurants and pubs in Lebanon are 45.75% less expensive than they are in New York City. Globally, meals and drinks at restaurants and pubs in Lebanon are more expensive than in Spain, Trinidad & Tobago and Greece; while they are cheaper than in Hong Kong, Estonia and Puerto Rico. Also, meals and drinks at restaurants and pubs in Lebanon are less costly than only in Qatar and the UAE among Arab countries.

### Economic recovery contingent on implementation of structural and fiscal reforms

The United Nations Economic and Social Commission for Western Asia (ESCWA) estimated that Lebanon's real GDP contracted by 16.2% in 2021 and considered that the country's economic recovery in the 2022-23 period will be contingent on the adoption and implementation of much-needed structural and fiscal reforms. It also estimated that the unemployment rate in Lebanon rose from 37.9% in 2020 to 43.5% in 2021, and projected it to decline to 32% this year and 28% in 2023, amid the political and economic instability that the country is facing. Also, it indicated that the rapid increase in the competitiveness of the Lebanese economy, due to the depreciation of the Lebanese pound against the US dollar and the sharp decline in dollar-denominated wages, will lead Lebanese exports to increase by 7.8% in 2021 and by 11.3% in 2022. Further, it projected the fiscal deficit to narrow from 13% of GDP in 2021 to 7% of GDP in 2022 and 4.5% of GDP next year, in case global oil prices average \$60 per barrel (p/b) in 2022 and 2023. But it forecast the fiscal deficit to widen to 22.5% of GDP this year and 31% of GDP in 2023, in case oil prices average \$80 p/b in the 2022-23 period, and if the government does not lift electricity and fuel subsidies in full. Also, it expected Lebanon to borrow from the World Bank and International Monetary Fund in order to finance its safety net program and support the economic recovery, pending structural reforms. However, it anticipated the public debt level to decline from an estimated 308.3% of GDP at the end of 2021 to 216.3% of GDP at end-2022 and 166% of GDP at the end of 2023, in case oil prices average \$60 p/b in the 2022-23 period. It also estimated that the public debt level would decrease to 229% of GDP at 2022 and reach 200% of GDP by the end of 2023, in case oil prices average \$80 p/b in 2022 and 2023.

Cost of Living Index for 2022  
Scores & Rankings of Arab Countries



Source: Numbeo, Byblos Research

### **Lebanese government launches public procurement reform strategy**

The government launched on January 20, 2022 the national strategy for public procurement reform. It said that the strategy is in line with the government's planned reforms that it outlined in its policy statement, and that it is an integral part of the broader financial reforms plan.

In parallel, the Ministry of Finance noted that the strategy is consistent with the demands of the Lebanese and international communities to provide the highest levels of efficiency, transparency and accountability in the spending of public funds. It also stressed the importance of achieving greater financial transparency through the inclusion of public procurement in budget laws. It added that this process requires advanced planning that would incorporate the public procurement strategy in the draft budgets of all public entities over the medium term, which would rationalize the spending of public funds by all entities.

In addition, the ministry indicated that the public procurement strategy should be a stepping stone to reform the way governmental agencies spend financial resources, irrespective of the source of such funds or the entity that will use the money. It added that this measure will attract investments in vital economic projects that Lebanon needs to kick start its economy. It said that authorities will initiate the implementation of the national strategy for public procurement reform in the summer of 2022.

It indicated that the strategy includes six key operational steps. First, it stated that the government should approve decrees that complement the public procurement law and propose amendments to other related laws. Second, it said that authorities should issue guidelines, as well as terms and conditions for the public procurement process, and make them available to all concerned parties. Third, it noted that the government should improve the skills of public-sector personnel, including employees at municipalities, and at all public entities and state-owned enterprises that engage in the spending of public funds. Fourth, the strategy stipulated that authorities should launch the central electronic platform that constitutes the main pillar of the new public procurement system. Fifth, it said that the government should strengthen the supervision of the Public Procurement Authority. Sixth, it stated that authorities should establish a committee that would address and handle objections from any concerned party. Finally, the ministry indicated that the public procurement strategy will support the activity of small- and medium-sized enterprises that have dealings with the public sector.

In parallel, the Lebanese Parliament enacted on June 30, 2021 a general procurement law, which aims to limit the proliferation of public transactions and establish a central mechanism for public procurement. The law is expected to usher a modern and transparent procurement system in the public sector.

Also, in May 2021, the World Bank conducted a comprehensive assessment of the public procurement system in Lebanon, and concluded that the existing process is not at par with internationally-recognized benchmarks. It said that Lebanon has an outdated and fragmented public procurement system with considerable capacity and technology gaps, resulting in inefficiencies and high risks of corruption. It added that Lebanon did not meet at all 57% of the 210 specific criteria used in the assessment, while it partially met 34% of them. Also, it found major shortcomings in the system's regulatory, institutional and operational frameworks, and considered that there is considerable room for improving the accountability, integrity and transparency criteria.

### **Lebanon to sign deal for supply of electricity from Jordan**

The Ministry of Energy & Water indicated that the state-owned Électricité du Liban (EdL) will sign on January 26, 2022 an agreement with Jordan's National Electricity Power Company in order for Jordan to supply electricity to Lebanon through Syria. It also noted that the ministries of Lebanon and Jordan will sign the deal with Syria's Public Establishment for Transmission and Distribution of Electricity at a later stage.

The Energy Ministry reached on October 28, 2021 a final agreement with the energy and oil ministries of Jordan and Syria to supply Lebanon with electricity from Jordan. The ministry said that Lebanon expects to receive 150 megawatts of electricity from midnight until 6:00 am, and 250 megawatts from 6:00 am until midnight, which will result in an additional supply of up to three hours of electricity per day in the country. The ministry indicated that the World Bank will extend a loan to Lebanon in order to cover the costs of importing and transporting electricity through the grid from Jordan.

The agreement is part of the Lebanese authorities' efforts to increase the supply of electricity in Lebanon in light of the inability of EdL to meet demand for electricity in the country, as well as due to the acute shortages of fuel oil that the country needs for power generation and the lack of foreign currency for the imports of hydrocarbons.

In March 2021, the Ministry of Finance requested from EdL to provide the ministry with the mechanism that EdL intends to follow in order to pay back Treasury advances and other transfers it has received from the Lebanese Treasury between 1997 and 2020. The Finance Ministry estimated that such advances and transfers totaled about LBP37,000bn, or \$24.54bn in the covered period.

Losses at EdL have constituted a burden on public finances for more than 20 years, which has required regular transfers from the Treasury and has led to wide fiscal deficits. The latest available figures show that Treasury transfers to EdL constituted 7% of overall fiscal spending in the first 11 months of 2020 relative to 9% in the same period of 2019, and constituted the third largest expenditures item after public sector personnel costs and debt servicing. Treasury transfers to EdL were equivalent to 5.1% of GDP in 2012, 4.3% of GDP in 2013, 4.4% of GDP in 2014, 2.3% of GDP in 2015, 1.8% of GDP in 2016, 2.5% of GDP in 2017, 3.2% of GDP in 2018, 2.8% of GDP in 2019, and 1% of GDP in 2020.

## Ratio Highlights

(in % unless specified)	2019	2020	2021	Change*
Nominal GDP (\$bn)	51.3	22.6	23.2	0.60
Public Debt in Foreign Currency / GDP	63.0	58.1	-	-
Public Debt in Local Currency / GDP	108.1	95.9	-	-
Gross Public Debt / GDP	171.1	154.0	299.4	145.5
Trade Balance / GDP	(29.0)	(12.5)	(22.2)	(9.71)
Exports / Imports	19.4	31.3	47.7	16.40
Fiscal Revenues / GDP	20.7	16.4	10.0	(6.37)
Fiscal Expenditures / GDP	31.6	20.8	14.7	(6.09)
Fiscal Balance / GDP	(10.9)	(4.4)	(4.7)	(0.29)
Primary Balance / GDP	(0.5)	(1.0)	(2.3)	(1.22)
Gross Foreign Currency Reserves / M2	70.2	41.5	-	-
M3 / GDP	251.2	213.7	-	-
Commercial Banks Assets / GDP	404.8	302.9	-	-
Private Sector Deposits / GDP	296.6	224.1	-	-
Private Sector Loans / GDP	92.9	58.3	-	-
Private Sector Deposits Dollarization Rate	80.3	80.4	-	-
Private Sector Lending Dollarization Rate	68.7	59.6	-	-

\*change in percentage points 21/20;

Source: Banque du Liban, Central Administration of Statistics, Institute of International Finance, Byblos Research Estimates & Calculations

Note: M2 includes money in circulation and deposits in LBP, M3 includes M2 plus Deposits in FC and bonds

## National Accounts, Prices and Exchange Rates

	2019	2020e	2021f
Nominal GDP (LBP trillion)	80.8	93.6	182.3
Nominal GDP (US\$ bn)	51.6	22.6	23.2
Real GDP growth, % change	-6.7	-26.2	-8.3
Private consumption	-7.3	-20.2	-10.0
Public consumption	2.5	-67.0	-60.0
Gross fixed capital	-11.1	-31.3	-21.5
Exports of goods and services	-4.0	-35.8	1.1
Imports of goods and services	-4.9	-38.0	-21.0
Consumer prices, %, average	2.9	84.9	140.2
Official exchange rate, average, LBP/US\$	1,507.5	1,507.5	1,507.5
Parallel exchange rate, average, LBP/US\$	1,625	5,549	13,569
Weighted average exchange rate LBP/US\$	1,566	4,142	7,865

Source: Institute of International Finance- September 2021

## Ratings & Outlook

Sovereign Ratings	Foreign Currency			Local Currency		
	LT	ST	Outlook	LT	ST	Outlook
Moody's Investors Service	C	NP	-	C		-
Fitch Ratings	RD	C	-	CC	C	-
S&P Global Ratings	SD	SD	-	CC	C	Negative

Source: Rating agencies

Banking Sector Ratings	Outlook
Moody's Investors Service	Negative

Source: Moody's Investors Service





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